



Steven L. Beshear
Governor

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Secretary
Energy and Environment Cabinet

Commonwealth of Kentucky
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David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Linda Breathitt
Commissioner

February 7, 2013

PARTIES OF RECORD

Re: Case No. 2013-00325

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum concerning the February 6, 2014 Informal Conference, please do so within five days of receipt of this letter. If you have any questions, please contact Jonathan Beyer, Staff Attorney, at 502/782-2581.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Derouen", with a long horizontal flourish extending to the right.

Jeff Derouen
Executive Director

Attachments

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File – Case No. 2013-00325

FROM: Jonathan Beyer, Staff Attorney

DATE: February 7, 2014

RE: Informal Conference of February 6, 2014

Pursuant to the Commission's January 28, 2014 Order, an Informal Conference was held in this matter at the Commission's office in Frankfort, Kentucky on February 6, 2014. A list of attendees is attached to this memorandum.

Beginning the conference, the parties discussed the expected contents and format of future environmental surcharge filings. Staff distributed a sample report for the environmental surcharge and revenue requirement regarding the Mitchell plant to aid in discussions on future filings related to the plant. A copy of the document is attached to this memorandum.

Staff next requested clarification as to the application of a provision contained within the Stipulation and Settlement Agreement ("Agreement") in case no. 2012-00578, a partial copy of which is attached.¹ Kentucky Power Company personnel explained the intent behind paragraph number 6, with particular reference to the first continuation paragraph on page 7 of the Agreement.

Finally, the parties briefly discussed the timing of a final Order in this matter and the necessity of future environmental surcharge filing. Finding that no party had any further questions, the conference was then adjourned.

¹ Case No. 2012-00578, *Application of Kentucky Power Company for (1) A Certificate of Public Convenience and Necessity Authorizing the Transfer to the Company of an Undivided Fifty Percent Interest in the Mitchell Generating Station and Associated Assets; (2) Approval of the Assumption by Kentucky Power Company of Certain Liabilities in Connection with the Transfer of the Mitchell Generating Station; (3) Declaratory Rulings; (4) Deferral of Costs Incurred in Connection with the Company's Efforts to Meet Federal Clean Air Act and Related Requirements; and (5) All Other Required Approvals and Relief* (Ky. PSC Oct. 7, 2013).

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)
COMMISSION OF THE ENVIRONMENTAL) CASE NO.
SURCHARGE MECHANISM OF KENTUCKY) 2013-00325
POWER COMPANY FOR THE TWO-YEAR)
BILLING PERIOD ENDING JUNE 30, 2013)

February 6, 2014

Please sign in:

NAME	REPRESENTING
<u>Jonathan Bayer</u>	<u>PSC-Legal</u>
<u>Ron Handziah</u>	<u>PSC-FA</u>
<u>Errol K Wagner</u>	<u>PSC-FA</u>
<u>Jim Livers</u>	<u>PSC-FA</u>
<u>Mark R. Overstreet</u>	<u>STILES & HARRISON PA Ky. Power</u>
<u>Ronie Wohlschlag</u>	<u>KPC</u>
<u>Amy Elliott</u>	<u>KPL</u>

**Kentucky Power Company-Environmental Surcharge Report
Current Period Revenue Requirement
Kentucky Power Company's 50% Mitchell Plant (Units 1 & 2)**

For the Expense Month of January 2014

Ln <u>No.</u>	<u>Cost Component</u>	Non-FGD <u>Costs</u> (Col 1)	FGD <u>Costs</u> (Col 2)	Total <u>Costs</u> (Col 3= 1 + 2)
	Return on Rate Base:			
1	Utility Plant at Original Cost	XX	XX	#VALUE!
2	Less Accumulated Depreciation	XX	XX	#VALUE!
3	Less Accum. Def. Income Tax	XX	XX	#VALUE!
4	Net Utility Plant (Ln 1 - Ln 2 - Ln 3)	#VALUE!	#VALUE!	#VALUE!
5	SO2 Emission Allowance Inventory from XXXX	XX		#VALUE!
6	ECR & Nox Emission Allowance Inventory from XXXX	XX		#VALUE!
7	Cash Working Capital Allowance from XXXX	XX	XX	#VALUE!
8	Total Rate Base (Ln 4 + Ln 5 + Ln 6 + Ln 7)	#VALUE!	#VALUE!	#VALUE!
9	Weighted Average Cost of Capital - from XXXX	10.50%		
10	Monthly Weighted Avg. Cost of Capital (Ln 9/12)	<u>0.88%</u>	<u>0.88%</u>	<u>0.88%</u>
11	Monthly Return on Rate Base (Ln 8 X Ln 10)	<u>#VALUE!</u>	<u>#VALUE!</u>	<u>#VALUE!</u>
	Operating Expenses:			
12	Monthly Disposal Exp. (5010000)		XX	#VALUE!
13	Monthly Urea Exp. (5020002)	XX		#VALUE!
14	Monthly Trona Exp. (5020003)		XX	#VALUE!
15	Monthly Lime Stone Exp. (5020004)		XX	#VALUE!
16	Monthly WV Air Emission Fee	XX		#VALUE!
17	Total Monthly Operation Costs (Ln 12 Thru 16)	<u>#VALUE!</u>	<u>#VALUE!</u>	<u>#VALUE!</u>
	Maintenance Expenses:			
18	Monthly FDG Maintenance Exp. (5120000)		XX	#VALUE!
19	Monthly SCR Maintenance Exp. (5120000)	XX		#VALUE!
20	Total Monthly Maintenance Exp.(Ln 18 + 19)	<u>#VALUE!</u>	<u>#VALUE!</u>	<u>#VALUE!</u>
	Other Expenses:			
21	Monthly Depreciation Expense	XX	XX	#VALUE!
22	Monthly Catalyst Amortization Expense	XX		#VALUE!
23	Monthly Property Tax	XX	XX	#VALUE!
24	Total Monthly Other Expenses (Ln 21 + Ln 22 + Ln 23)	<u>#VALUE!</u>	<u>#VALUE!</u>	<u>#VALUE!</u>
25	Total Revenue Requirement (Ln 11 + Ln 17 + Ln 20 + Ln 24)	<u>#VALUE!</u>	<u>#VALUE!</u>	<u>#VALUE!</u>

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY POWER COMPANY FOR (1) A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AUTHORIZING THE TRANSFER TO THE COMPANY OF AN UNDIVIDED FIFTY PERCENT INTEREST IN THE MITCHELL GENERATING STATION AND ASSOCIATED ASSETS; (2) APPROVAL OF THE ASSUMPTION BY KENTUCKY POWER COMPANY OF CERTAIN LIABILITIES IN CONNECTION WITH THE TRANSFER OF THE MITCHELL GENERATING STATION; (3) DECLARATORY RULINGS; (4) DEFERRAL OF COSTS INCURRED IN CONNECTION WITH THE COMPANY'S EFFORTS TO MEET FEDERAL CLEAN AIR ACT AND RELATED REQUIREMENTS; AND (5) ALL OTHER REQUIRED APPROVALS AND RELIEF

RECEIVED
JUL 02 2013
PUBLIC SERVICE
COMMISSION

Case No. 2012-00578

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement, made and entered into this 2ND day of July, 2013, by and among Kentucky Power Company ("Kentucky Power" or "Company"); Kentucky Industrial Utility Customers, Inc. ("KIUC"); and Sierra Club, Alexander Desha, Tom Vierheller, and Beverly May ("Sierra Club"):

etc., related to Big Sandy Unit 1, and all plant and other capitalized costs, e.g., fuel inventories, materials and supplies inventories, etc., related to Big Sandy Unit 2, from the cost of service study in the Base Rate Case, and instead recover these costs in the manner set forth in Paragraph 14 of this Settlement Agreement.

4. Effective January 1, 2014, the Company will implement an Asset Transfer Rider pursuant to the Tariff Asset Transfer Rider attached hereto as EXHIBIT 1. The Asset Transfer Rider is designed to collect \$44 million annually, with a true-up mechanism to ensure no over or under recovery. The charges payable under the Asset Transfer Rider are initially determined by first allocating the \$44 million revenue requirement between residential and all other customers based upon their respective percentage of total revenues as of the twelve month period ended September 30, 2013. The Asset Transfer Rider charges will be calculated as a percentage of total revenues for the residential class, and as a percentage of non-fuel revenues for all other customers. The Asset Transfer Rider will remain in place until the Commission sets new base rates for the Company that include the Mitchell units. After new base rates are established, the Asset Transfer Rider will be reset to remove the \$44 million by substituting Asset Transfer Rider-2 (Tariff A.T.R.-2), attached hereto as EXHIBIT 1-A, which thereafter will be used to recover the Big Sandy 1 and Big Sandy 2 retirement costs as described in Paragraph 14.

5. Effective January 1, 2014, the monthly Environmental Surcharge factor (Tariff E.S.) will be fixed and maintained at 0.00% until new base rates are set by the Commission. The revised Tariff E.S. is attached hereto as EXHIBIT 2.

6. When base rates are set in the Base Rate Case, all costs associated with the Mitchell Units 1 and 2 Flue Gas Desulfurization (FGD) equipment will be recovered through the

environmental surcharge (Tariff E.S.) approved in the Base Rate Case, and excluded from base rates in the Base Rate Case. This collection mechanism shall continue at least until the Commission sets new base rates for a period commencing after June 30, 2020 that include these costs. The charges payable under the Environmental Surcharge to be submitted for approval in the Base Rate Case will be determined by first allocating the revenue requirement between full requirements wholesale customers and retail customers in the same manner that it is presently allocated. The retail share of the revenue requirement will then be allocated between residential and non-residential retail customers based upon their respective total revenues. The Environmental Surcharge will be implemented as a percentage of total revenues for the residential class and as a percentage of non-fuel revenues for all other customers.

7. Effective January 1, 2014, the Company will set and maintain the System Sales Adjustment Factor (Tariff S.S.C.) to 0.0000 mills/kWh until new base rates are set by the Commission. The revised Tariff S.S.C. is attached hereto as EXHIBIT 3. Calendar year off-system sales margins above \$15,290,363, the level in current base rates, will be retained by the Company until new base rates are set.

8. The Company shall be authorized in accordance with Financial Accounting Standards Board Standards Codification 980-340-25-1 to accumulate and defer for review and recovery in the Base Rate Case the \$28,113,304 of costs incurred from 2004 through 2012 in connection with the Company's ongoing efforts to meet Federal Clean Air Act and other environmental requirements with respect to Big Sandy Unit 2. The Company shall be authorized to amortize and recover the regulatory asset over a five-year period commencing with the implementation of the base rates established in the Base Rate Case. The Company will be